

October 24, 2003



Financial Management

Contracts Awaiting Financial
Adjustment at the Defense
Finance and Accounting
Service Columbus
(D-2004-004)

Office of the Inspector General
of the
Department of Defense

Constitution of
the United States

A Regular Statement and Account of the Receipts and Expenditures of all public
Money shall be published from time to time.

Article I, Section 9

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Acronyms

| | |
|---------|---|
| CAR | Contract Administration Report |
| DCMA | Defense Contract Management Agency |
| DFAS | Defense Finance and Accounting Service |
| DFAS-CO | Defense Finance and Accounting Service Columbus |
| DRID 53 | Defense Reformativ Initiative Directive 53 |
| FMR | Financial Management Regulations |
| MOCAS | Mechanization of Contract Administration Services |



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
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October 24, 2003

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE
(COMPTROLLER)/CHIEF FINANCIAL OFFICER
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE


SUBJECT: Report on Contracts Awaiting Financial Adjustment at the Defense
Finance and Accounting Service Columbus (Report No. D-2004-004)

We are providing this report for your information and use. We considered management comments on a draft of this report when preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. James L. Kornides at (614) 751-1400, extension 211 or Mr. John K. Issel at (614) 751-1400, extension 212. See Appendix C for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:


Paul J. Granetto
Director
Defense Financial Auditing
Service

Office of the Inspector General of the Department of Defense

Report No. D-2004-004

(Project No. D2002FJ-0205)

October 24, 2003

Contracts Awaiting Financial Adjustment at the Defense Finance and Accounting Service Columbus

Executive Summary

Who Should Read This Report and Why? This report should be read by finance and contract administration managers responsible for contract administration and closeout. This report discusses contracts awaiting financial adjustments in the Payment Adjustments section of the Mechanization of Contract Administration Services system.

Background. To improve its operations, DoD had planned to replace its Mechanization of Contract Administration Services system with a new contract administration system, the Defense Procurement Payment System. In anticipation of a transition, the Defense Finance and Accounting Service and the Defense Contract Management Agency were attempting to close out as many contracts as possible. On December 10, 2002, DoD decided to discontinue funding for the development of the new system in the Program Budget Decision 704, "Financial Management Modernization Program." Instead, funding was provided to modify and modernize the existing system. Despite the change in plans, the timely close out of completed contracts continued to receive a high priority within DoD. A section of the Mechanization of Contract Administration Services system, Section 4, "Payment Adjustment," is reserved for contracts needing some type of financial adjustment, such as refunds received after a contract has been closed, reopened contracts, and contracts requiring additional audit. Contracts cannot be closed out of the Mechanization of Contract Administration Services system until all financial adjustments have been processed.

Results. In the Mechanization of Contract Administration Services system, 1,084 contracts valued at \$2.9 billion had remained open for more than 2 years and upwards of 9 years while awaiting financial adjustment. As a result, there was increased risk that contracts may become overage for closure, funding on the contracts could cancel, or overpayments may not be recovered. Additionally, high numbers of outstanding contracts awaiting financial adjustments, including adjustments to resolve negative unliquidated obligations and potential overpayments, jeopardizes DoD efforts to prepare financial information and statements that are auditable. Defense Finance and Accounting Service Columbus needed to assign additional contract administrative reports personnel to the processing of Section 4 contracts and take action to adjust and remove contracts within 90 days as required by current policy. See the Finding section for the detailed recommendations.

Management Comments. The Director, Defense Finance and Accounting Service Columbus concurred with the finding and recommendations and provided an action plan for corrective actions for each recommendation. He stated that the Defense Finance and Accounting Service Columbus would continue to use the Section 4 extracts to maintain the current prioritization and focus on the aged Section 4 contracts in inventory. In addition, a team has been put together to resolve the remaining contracts in Section 4. He also stated that all of the Contract Administrative Report functions are being monitored on a weekly basis to ensure that appropriate resources are allocated to each function. He further stated that the experienced Contract Administrative Report personnel and supervisors are working a rigorous on-the-job training program to increase the knowledge and experience of the new personnel.

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Background

Prior to December 2002, the Defense Finance and Accounting Service Columbus (DFAS-CO) planned to replace the entitlement and payment functions performed by its automated system, the Mechanization of Contract Administration Services (MOCAS), with a new or modified system. The replacement system was expected to help achieve the goal of eliminating unmatched disbursements and negative unliquidated obligations. On March 23, 2000, the then Deputy Secretary of Defense issued Defense Reform Initiative Directive (DRID) 53, "Reconciliation of Contracts in the MOCAS System," to support the replacement of MOCAS and facilitate the transition to another system.

DRID 53 established a DOD-wide team to integrate and coordinate the reconciliation, closeout, and conversion of contracts from MOCAS to a new or modified system. The team consisted of the Military Departments, the Defense Logistic Support Command of the Defense Logistics Agency, Defense Finance and Accounting Service (DFAS), and the Defense Contract Management Agency (DCMA). The Military Departments and DCMA were directed to develop comprehensive plans for closing out all completed contracts. Additionally, DCMA and DFAS were directed to establish priorities for contract closure and to focus their efforts on those contracts in MOCAS that are active or have continuing requirements to be in a payment information system. The group organized contracts into DRID 53 groupings, one of which is Section 4, "Payment Adjustments," contracts.

DFAS-CO planned to continue to use the MOCAS system to administer, pay, and close DoD contracts until the system was replaced or modified. However, on December 10, 2002, DoD decided to discontinue funding for the development of a new system to replace MOCAS in Program Budget Decision 704, "Financial Management Modernization Program." Instead, funding was provided to modify the existing MOCAS system. Despite the cancellation of the new system, the timely close out of completed contracts continued to be a high priority throughout DoD.

The MOCAS system generated a Contract Administrative Report (CAR), which is a month-end inventory of all contracts requiring full or limited administration. On initial entry into the MOCAS system, a contract is automatically assigned to Part A, B, or C based upon the dollar value of the contract, the degree of attention that management is expected to give the contract, and the type of contract. Each part is subdivided into sections (that is, sections 1, 2, 3, 4, 5, 8, and 9) based upon the activity status of the contract and the type of actions required to close the contracts. A contract can only be in one part and section at a time. Section 4 is reserved for contracts that are physically and administratively complete with financial problems, such as refunds received after a contract had been closed, reopened contracts, and contracts requiring additional audit. DFAS desk procedures require that contracts not remain in Section 4 for more than 90 days. The only exceptions are contracts requiring cash collections and contracts needing reconciliation as identified by the administrative contracting officer.

DFAS-CO is solely responsible for required financial adjustments to contracts in Section 4. Contracts cannot be closed out of MOCAS until all financial adjustments have been processed.

Objectives

Our overall audit objective was to determine the appropriateness and timeliness of the DFAS-CO actions to resolve issues for those contracts awaiting financial adjustments. We also planned to review the management control program as it related to the audit objective. See Appendix A for a discussion of the scope and methodology, and the Management Control Program.

Contracts Needing Payment Adjustment

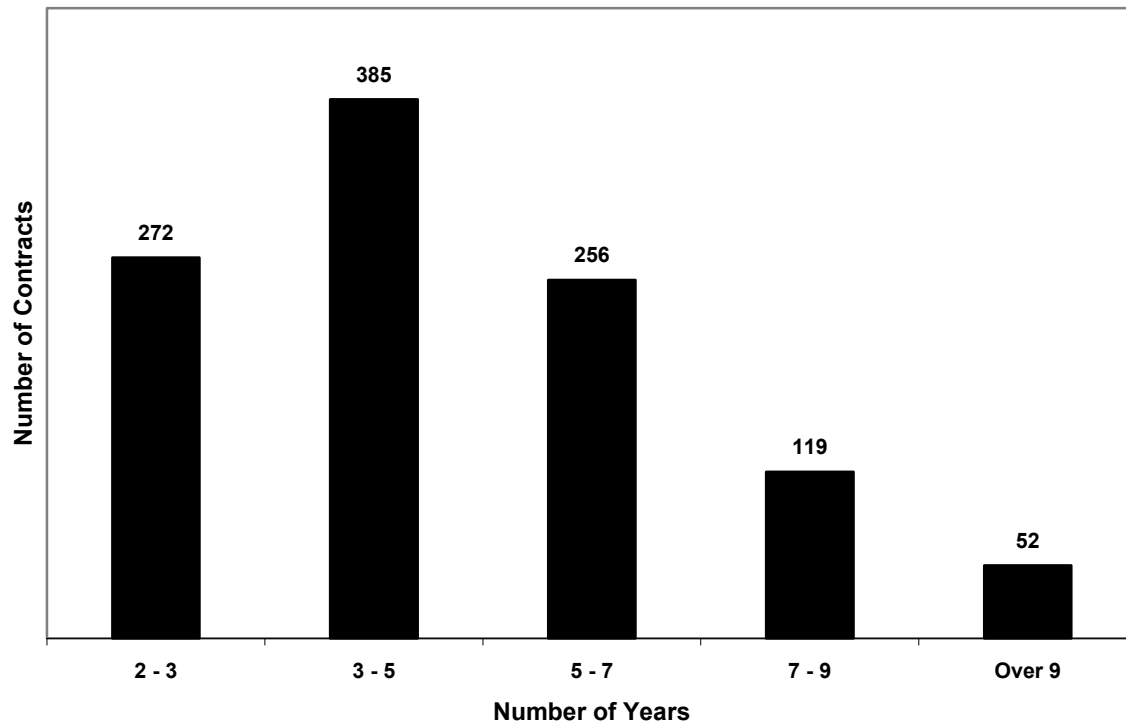
DFAS-CO was not taking the timely actions needed to close the contracts in Section 4. In MOCAS, 1,084 contracts valued at \$2.9 billion had remained open for more than 2 years while awaiting financial adjustment. The prolonged delay occurred because the DFAS-CO did not give Section 4 contracts appropriate attention, and personnel responsible for processing financial adjustments to the contracts were assigned to other duties. As a result, there was increased risk that contracts may become overage for closure, funding on the contracts could cancel, or overpayments may not be recovered. Additionally, high numbers of outstanding contracts awaiting financial adjustments, including adjustments to resolve negative unliquidated obligations and potential overpayments, jeopardizes DoD efforts to prepare financial information and statements that are auditable.

Universe of Section 4 Contracts

DFAS-CO provided the universe of contracts in the MOCAS system that had contractor performance completed on them and were awaiting DFAS-CO to make required financial adjustments (that is, Section 4 contracts). The universe showed that, as of February 2002, there was a total of 3,095 contracts in Section 4. These 3,095 contracts had an obligated value of \$34.4 billion.

To determine whether DFAS-CO was taking actions on these contracts in a timely manner, we sorted the contracts by date of last activity. Of the total 3,095 contracts in Section 4, 1,084 or 35 percent of the contracts showed no activity (that is, DFAS-CO efforts to make needed financial adjustment) for more than 2 years and upwards of 9 years. The 1,084 contracts had an obligated value of \$2.9 billion. The following graph shows the extended periods of time that the contracts remained in Section 4 with no actions taken to process them.

**Total of 1,084 Unprocessed
Section 4 Contracts**



To determine what actions were needed for DFAS-CO to close these contracts quickly, we selected a random sample of 100 of the 1,084 contracts for detailed review. The 100 contracts in our sample had an obligated value of approximately \$336.3 million. See Appendix B for a listing of the 100 contracts selected for review and the period the contracts remained unworked.

Timeliness of DFAS-CO Actions

DFAS-CO had not taken required actions on the contracts in Section 4 in accordance with prescribed policies. The Financial Management Regulation (FMR), volume 1, chapter 2, addendum 1, “DoD Financial Management System Principles,” discusses timeliness of financial transactions and requires financial management data to be recorded as soon as possible after the occurrence of the event. DFAS-CO Desk Procedure 604, “Contract Administrative Report (CAR) Part A and B, Section 4 Listing,” directs that, with the exception of cash collections, contracts should not remain in Section 4 of MOCAS for more than 90 days.

The existing policies were not followed by DFAS-CO. As shown in Appendix B, the contracts remained in Section 4 for much longer than 90 days. The primary reasons for the delays in processing the contracts were lack of priority and attention and a lack of resources to devote to the task.

Management Priority and Attention

DFAS-CO management had not given appropriate priority and attention to contracts that required DFAS-CO financial adjustment and had been residing in Section 4 for extended periods of time. DFAS-CO had given the processing of Section 4 contracts a low priority because other tasks required more attention.

Had DFAS-CO management assigned a sufficient priority to working Section 4 contracts, many of them could have been processed for closure quickly and with relatively minor effort. To illustrate, we provided DFAS-CO with a listing of the 100 randomly selected Section 4 contracts that we planned on reviewing. Of the 100 contracts, 54 were processed for closure in approximately 90 days of receiving our list. Additionally, 23 of the 100 contracts should not have been in Section 4.

By March 2003, of the 100 contracts selected for review, 64 were closed out, 24 were moved to appropriate sections for ongoing administration, and only 12 remained in Section 4 for more extensive attention, research, and adjustment. Allowing contracts to remain in Section 4 for an extended period of time could result in the cancellation of funding on the contracts. Information DFAS provided showed that funds had canceled on twelve of the contracts in our sample.

DFAS-CO needs to closely monitor contracts in Section 4, or funding on the contracts could cancel. Once funds designated for contract payment have been canceled, the funds can no longer be used to pay obligations. At that point, DFAS-CO is required to go to the original funding source for current year funds. Unless current year funds are available, valid contractor obligations would remain unpaid. These unpaid obligations would continue to draw interest until paid.

In other instances, DoD may need to collect overpayments made to contractors. For example, one of the contracts in our sample, contract number F33657-83-C0417 showed a negative unliquidated obligation of \$21,401 at the accounting classification reference number level of the contract and an overall contract negative unliquidated obligation of \$71,292. Negative unliquidated obligations indicate there has been an inaccurate posting of financial transactions to a contract or that the contractor may have been overpaid. However, DFAS-CO had not taken any action to determine the cause of the negative unliquidated obligation, which was recorded on this contract on August 7, 1997. The contract should have been sent to the reconciliation division for an audit of the payments and, if it was determined that the contractor had actually been overpaid, a demand letter should have been issued for the overpayment.

Additionally, the fact that the contracts remain unworked is contrary to sound contract administration and the closeout practice. In our sample of 100 Section 4 contracts that have been unworked for more than 2 years, 37 of the contracts had been awarded during 1979 through 1989 and should have been processed for closure many years earlier, and are now overage. More timely action on contracts in Section 4 is needed.

Reasons for Inactivity

We asked DFAS-CO management personnel why contracts had resided in Section 4 for so much time with no effort made to process them. DFAS-CO management stated that the primary reason was that a higher priority was given to working DRID 53 identified contracts for closure, performing other contract reconciliations, validating J-coded invoices (that is, contractor invoices that cannot be paid until another financial transaction is posted), and processing normal vendor requests for payment. They stated that personnel responsible for processing the needed financial adjustments to contracts in Section 4 (specifically, CAR branch personnel) were assigned to those other duties.

Staffing Assignments. DFAS-CO established the CAR Branch to perform several functions, including moving contracts through the MOCAS system from inception to closeout in a timely manner and processing the necessary actions needed to resolve the financial problems on contracts in Section 4. Processing contracts and placing them in the appropriate section of MOCAS is critical to the success and operational integrity of both contract administration and the contract closure process.

Although DFAS-CO was working to effect timely processing of DRID 53 prioritized contracts, fund reconciliation, J-coded invoices, and other vendor issues, the need to review and process Section 4 contracts in a timely manner must be reevaluated by DFAS-CO. Allowing completed contracts to remain unworked in Section 4 for years at a time will result in increased risk of the lapse of funding, non-collection of overpayments, and payment of interest on amounts that are owed.

Experienced Staff. In addition to redirecting staff to work on other duties, the lack of experienced CAR personnel affected the level of effort made to process contracts in Section 4. CAR branch managers stated that a primary reason Section 4 contracts were not processed timely was the lack of experienced personnel. DFAS-CO told us that 40 personnel were assigned to the CAR branch in 1998. However, the branch had only 21 individuals assigned to it. Further, only 7 of the 21 branch personnel had CAR experience. DFAS-CO needs to provide additional experienced resources for processing Section 4 contracts.

Summary

Allowing contracts to remain in Section 4 for extended periods of time is contrary to effective contract administration. DoD had undertaken a major initiative in compliance with DRID 53 to close out contracts in MOCAS for which contractor performance had been completed. Although DFAS-CO management stated that working DRID 53 identified contracts for closure was one of its priorities, a substantial number of contracts that should have been processed for closeout from MOCAS remained in Section 4, and little effort was made to process them. The effort needed to process these contracts was not overwhelming as evidenced by the quick action taken on the contracts in our sample. DFAS-CO management needed to ensure completed contracts residing in Section 4 were processed for closure in a timely manner.

Recommendations and Management Comments

We recommend that the Director, Defense Finance and Accounting Service Columbus:

1. Monitor contracts in Section 4 closely to ensure timely processing and prioritize the contracts to ensure that funds do not cancel.

DFAS Comments. The Director, Defense Finance and Accounting Service Columbus concurred. DFAS-CO planned to maintain prioritization and focus on the aged contracts in the Section 4 inventory. Of the 1,084 contracts identified, DFAS-CO closed 45 percent, 20 percent were placed in active status, and 1 percent was moved to a dormant status pending a complete or partial termination. To ensure the timely processing and prioritization, a team has been put together to close out the remaining 34 percent of the contracts in Section 4.

2. Assign, as appropriate, existing contract administrative personnel to the processing of Section 4 contracts until the backlog is reduced.

DFAS Comments. The Director, Defense Finance and Accounting Service Columbus concurred. All of the CAR functions are being monitored on a weekly basis to ensure that appropriate resources are allocated to each CAR function including the Section 4 inventories. Resource allocation and overtime will be used to address fluctuations in inventory to ensure that all balances are properly maintained.

3. Study the contract administrative reports personnel requirements and, as needed, seek additional experienced personnel for the processing of Section 4 contracts.

DFAS Comments. The Director, Defense Finance and Accounting Service Columbus concurred. As a result of a functional realignment, three technicians were added, and two new positions have been targeted for realignment to the CAR Branch. Also, the experienced CAR Accounting Technicians, Lead Accounting Technicians, and CAR Supervisors are working a rigorous on-the-job training program to increase the knowledge and experience of the new technicians.

Appendix A. Scope and Methodology

We reviewed contracts that were in Section 4 of the MOCAS system. Our scope included 1,084 contracts that, for various reasons, did not have any activity on them for more than 2 years.

We randomly selected 100 contracts from the universe of 1,084 for detailed review. We reviewed all obtainable contract files and documentation, held discussions with DFAS-CO personnel, and obtained relevant records from MOCAS to determine the reasons our sample of 100 contracts resided in Section 4 for more than 2 years with no activity.

We performed this audit from February 2002 to June 2003 in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. We relied on computer-processed data from MOCAS to determine why contracts in our sample were in Section 4 for more than 2 years with no activity on them. Although we did not perform a formal reliability assessment of the computer-processed data, we did not find errors that would preclude the use of the computer-processed data to meet the audit objective or that would change the conclusions in this report.

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage of the DoD contract management and financial management high-risk areas.

Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We did not perform a full review of the adequacy of management controls on the contracts awaiting financial adjustments in order to complete the contract closure process. The DoD Statement of Assurance reported, "the Department's accounting, finance, and feeder systems do not fully comply with Federal Financial Management systems requirements." MOCAS is among these systems used by DoD for financial-related operations. Also, DoD has reported, under its acquisition process and systems, weaknesses in acquisitions but did not specifically identify weaknesses in its contract closure process. Additionally, DFAS-CO internal control risk assessments did not identify problems with the processing of contracts in Section 4.

Prior Coverage

No prior coverage has been conducted on contracts awaiting financial adjustments in Section 4 during the last 5 years.

Appendix B. Sample of 100 Contracts—As of February 2002

| <u>Contract No.</u> | <u>Year Awarded</u> | <u>Date of Last Activity</u> | <u>Length Contract Unprocessed (In Years)</u> |
|---------------------------|-------------------------|----------------------------------|---|
| 1. SP0750-94-D1014/0001 | 1994 | Feb-96 | 6 |
| 2. N66001-87-D0019/0005 | 1987 | Aug-98 | 3 |
| 3. DLA900-89-C0624 | 1989 | Sep-96 | 5 |
| 4. N00140-97-DH155/0020 | 1997 | Apr-99 | 2 |
| 5. F30635-92-MV123 | 1992 | Nov-92 | 9 |
| 6. N00600-90-D2889/0034 | 1990 | Sep-98 | 3 |
| 7. SP0750-97-MM432 | 1997 | Jun-97 | 4 |
| 8. N00383-92-C7016 | 1992 | Dec-96 | 5 |
| 9. SP0460-96-MT054 | 1996 | Nov-95 | 6 |
| 10. SP0500-97-MDC65 | 1997 | Apr-97 | 4 |
| 11. F33657-83-C0417 | 1983 | Aug-97 | 4 |
| 12. N68520-90-D0018/ WN4A | 1990 | Aug-99 | 2 |
| 13. N00104-80-G0017/0025 | 1980 | Oct-95 | 6 |
| 14. DLA700-93-M0365 | 1993 | Aug-94 | 7 |
| 15. N66001-87-D0019/0006 | 1987 | May-97 | 4 |
| 16. SP0441-93-G7554/TY40 | 1993 | Oct-95 | 6 |
| 17. DLA120-93-D4082/0001 | 1993 | Jan-96 | 6 |
| 18. SP0770-96-MDW28 | 1996 | Apr-96 | 5 |
| 19. N00019-93-G0129/YC38 | 1993 | Apr-96 | 5 |
| 20. N66001-87-D0006 | 1987 | Aug-99 | 2 |
| 21. F09603-96-D0117/0001 | 1996 | Feb-00 | 2 |
| 22. DLA400-90-C5264 | 1990 | Aug-96 | 5 |
| 23. SP0770-96-MRS13 | 1996 | Apr-99 | 2 |
| 24. DAAK80-81-C0211 | 1981 | Oct-96 | 5 |
| 25. N00123-90-D5335/4WTA | 1990 | Apr-99 | 2 |
| 26. N66604-87-D0070/0031 | 1987 | Mar-97 | 4 |
| 27. N00123-87-D5086/EW49 | 1987 | Apr-95 | 6 |
| 28. N66001-87-D0083/0001 | 1987 | Dec-98 | 3 |
| 29. N00406-90-MF487 | 1990 | Jul-97 | 4 |
| 30. N66001-82-C0472 | 1982 | Aug-95 | 6 |
| 31. SP0500-97-MVF08 | 1997 | Feb-00 | 2 |
| 32. N00383-95-GM120/UBE9 | 1995 | Jun-97 | 4 |
| 33. N68520-85-D9052/0069 | 1985 | Jul-92 | 9 |

| <u>Contract No.</u> | <u>Year Awarded</u> | <u>Date of Last Activity</u> | <u>Length Contract Unprocessed</u> (In Years) |
|--------------------------|-------------------------|----------------------------------|--|
| 34. N00140-87-D9382/0008 | 1987 | Sep-99 | 2 |
| 35. DAAH01-79-C1071 | 1979 | Jan-94 | 8 |
| 36. N00383-95-GM120/TY66 | 1995 | Dec-97 | 4 |
| 37. N66604-91-D1063/0048 | 1991 | Jan-99 | 3 |
| 38. F42600-90-G7536/TZ09 | 1990 | Dec-93 | 8 |
| 39. SP0450-95-C5516 | 1995 | Jun-98 | 3 |
| 40. DLA500-86-M6924 | 1986 | Sep-97 | 4 |
| 41. DAAK60-90-C1066 | 1990 | Feb-96 | 6 |
| 42. N00189-94-D0283/FJ06 | 1994 | Feb-99 | 3 |
| 43. N00104-89-GA118/5108 | 1989 | Nov-96 | 5 |
| 44. N00014-85-C2431 | 1985 | Feb-97 | 5 |
| 45. SP0960-97-M1074 | 1997 | Jan-97 | 5 |
| 46. N66001-87-D0138/0014 | 1987 | Jan-95 | 7 |
| 47. DAAA21-88-C0167 | 1988 | Jan-99 | 3 |
| 48. SP0100-96-D1000/0004 | 1996 | Nov-97 | 4 |
| 49. F33615-88-C1835 | 1988 | Aug-98 | 3 |
| 50. N00104-90-PC209 | 1990 | Jan-97 | 5 |
| 51. N00104-92-CMA93 | 1992 | Jul-95 | 6 |
| 52. N66001-86-D0079/0004 | 1986 | Dec-97 | 4 |
| 53. SP0750-95-M2154 | 1995 | Aug-99 | 2 |
| 54. SP0450-96-ML555 | 1996 | Aug-99 | 2 |
| 55. SP0460-96-MPJ98 | 1996 | Jan-98 | 4 |
| 56. N00024-85-G7156/UR03 | 1985 | Nov-99 | 2 |
| 57. N00140-85-DE205/0043 | 1985 | Jun-99 | 2 |
| 58. F42600-81-C6026 | 1981 | May-96 | 5 |
| 59. F09603-89-C2666 | 1989 | Feb-00 | 2 |
| 60. SP0500-95-WB528 | 1995 | Mar-95 | 6 |
| 61. N68520-90-D0041/0008 | 1990 | Aug-92 | 9 |
| 62. SP0750-95-M0592 | 1995 | May-96 | 5 |
| 63. F09603-98-G0001/TZ42 | 1998 | Dec-99 | 2 |
| 64. DAAL02-85-C0101 | 1985 | Jan-99 | 3 |
| 65. SP0700-94-G0002/UD60 | 1994 | Apr-96 | 5 |
| 66. N00024-91-D5611/0006 | 1991 | Sep-96 | 5 |
| 67. F09603-94-G0013/TY01 | 1994 | Mar-98 | 3 |
| 68. SP0450-95-MKS37 | 1995 | Nov-97 | 4 |
| 69. DAAB07-86-CD501 | 1986 | Jan-00 | 2 |
| 70. SPO460-97-M4472 | 1997 | Jan-99 | 3 |
| 71. DLA440-94-M2072 | 1994 | Nov-93 | 8 |
| 72. DLA100-87-C0723 | 1987 | Jun-99 | 2 |
| 73. F42610-96-M0042 | 1996 | May-93 | 8 |
| 74. DLA100-93-D4146/0009 | 1993 | Oct-96 | 5 |

| <u>Contract No.</u> | <u>Year Awarded</u> | <u>Date of Last Activity</u> | <u>Length Contract Unprocessed</u> (In Years) |
|--------------------------|---------------------|------------------------------|--|
| 75. SP0500-97-MN007 | 1997 | Oct-97 | 4 |
| 76. F41608-94-D0001/3520 | 1994 | Sep-96 | 5 |
| 77. DLAH00-87-D0014/9302 | 1987 | Oct-92 | 9 |
| 78. DLA900-93-DC324/0002 | 1993 | Jan-97 | 5 |
| 79. N68335-97-G0023/UG13 | 1997 | Jul-99 | 2 |
| 80. F09603-91-C1453 | 1991 | Sep-96 | 5 |
| 81. N00024-85-G7153/XB05 | 1985 | Nov-98 | 3 |
| 82. N68520-90-D0041/0002 | 1990 | Sep-92 | 9 |
| 83. F04704-84-C0008 | 1984 | Oct-98 | 3 |
| 84. DLAH00-87-D0014/9216 | 1987 | Nov-92 | 9 |
| 85. N00189-92-C0263 | 1992 | Jul-97 | 4 |
| 86. DAAH01-97-P0077 | 1997 | Sep-97 | 4 |
| 87. DAEA26-86-D2006/0007 | 1986 | Aug-94 | 7 |
| 88. SP0460-96-MPH25 | 1996 | Jun-97 | 4 |
| 89. DLA500-93-MPF81 | 1993 | Jan-94 | 8 |
| 90. SPO740-96-M9349 | 1996 | Apr-96 | 5 |
| 91. SPO500-97-C0023 | 1997 | Mar-97 | 4 |
| 92. SP0460-95-MD969 | 1995 | Oct-95 | 6 |
| 93. N00189-87-D0102/0003 | 1987 | Sep-99 | 2 |
| 94. DLA400-88-C1444 | 1988 | Aug-99 | 2 |
| 95. SP0430-97-MQ296 | 1997 | Dec-97 | 4 |
| 96. DLA720-88-M3187 | 1988 | Aug-99 | 2 |
| 97. DAAE07-95-C0550 | 1995 | May-96 | 5 |
| 98. F30602-82-C0079 | 1982 | Oct-98 | 3 |
| 99. SP0740-97-M6015 | 1997 | Sep-98 | 3 |
| 100. USZA95-98-C0005 | 1998 | Mar-98 | 3 |

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Director, Defense Procurement and Acquisition Policy

Joint Staff

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Director, Defense Contract Audit Agency
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Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE
ARLINGTON

1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON VA 22240-5291

SEP 8 2003



MEMORANDUM FOR TECHNICAL DIRECTOR, AUDIT FOLLOWUP AND GAO
AFFAIRS, OFFICE OF THE INSPECTOR GENERAL,
DEPARTMENT OF DEFENSE

SUBJECT: Management Comments to the Department of Defense Inspector General
Draft Report Project D2002FJ-0205, "Contract Awaiting Financial
Adjustment at the Defense Finance and Accounting Service, Columbus,"
dated July 23, 2003

In response to the DoDIG letter dated July 23, 2003, subject as above, the
Management comments for Recommendations 1, 2 and 3 of the subject audit report are
Attached. Concurrences were given for each Recommendation along with an action plan
for corrective actions.

Thomas R. Bloom
Director

Attachment:
As stated

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**DFAS Management Comments to the DoDIG Draft Audit Report, "Contracts Awaiting
Financial Adjustment at the Defense Finance and Accounting Service Columbus,"
dated July 23, 2003**

Recommendation 1: Monitor contracts in Section 4 closely to ensure timely processing and prioritize the contracts to ensure that funds do not cancel.

Management Comments: Concur. Section 4 extracts are being used to maintain a focused effort on reducing the age of the Section 4 inventory. Of the 1,084 contracts identified in the DoD-IG draft report showing no activity for two or more years, Defense Finance and Accounting Service (DFAS) Columbus has closed 45 percent of the contracts for a total \$506.7 million. Twenty percent of the contracts, valued at \$487 million, were identified as still requiring performance from the contractor or Administrative Contracting Officer (ACO) and have been placed in active status. Additionally, 1 percent of the contracts valued at \$3.1 million were moved to a dormant status pending complete or partial termination. Only the ACO can request contracts be moved out of dormant status. DFAS Columbus will continue to use the Section 4 extracts to maintain the current prioritization and focus on aged Section 4 contract inventory. To ensure timely processing and prioritization, a team has been put together to clear the remaining 34 percent while maintaining an acceptable inventory of aged Section 4 contracts.

Estimated Completion Date: December 31, 2003

Recommendation 2: Assign, as appropriate, existing contract administration personnel to the processing of Section 4 contracts until backlog is reduced.

Management Comments: Concur. The Contract Administration Reports (CAR) Branch performs several functions in the administrative processing of contracts through Mechanization of Contract Administration System (MOCAS). All CAR functions are being monitored on a weekly basis to ensure appropriate resources are allocated to each CAR function including Section 4 inventories. Resource allocation and overtime will be used to address fluctuations in inventory to ensure all balances are properly maintained. As mentioned in Recommendation 1, a team has been assigned to clear the remaining inventory of aged Section 4 contracts.

Estimated Completion Date: December 31, 2003

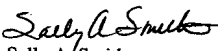
Recommendation 3: Study the contract administration reports personnel requirements and, as needed, seek additional experienced personnel for the processing of Section 4 contracts.

Management Comments: Concur. The CAR Branch has been increased by three technicians as a result of a functional realignment of the Document Tracking Log inventory control duties. The experienced CAR Accounting Technicians, Lead Accounting Technicians, and CAR Supervisors are working a rigorous on-the-job training program to increase the knowledge and experience of the new Technicians. In addition, two positions have been targeted for realignment to the CAR Branch.

Estimated Completion Date: This recommendation is considered closed.

DFAS Audit Issuance, Audit Recommendations, Follow-up Action Certification

"My staff has reviewed the recommendations in the DoD IG draft audit report on "Contracts Awaiting Financial Adjustment at the Defense Finance and Accounting Service Columbus," Project Number D2002FJ-0205, dated July 23, 2003. I certify that we will implement/complete Recommendations 1 and 2 by the dates cited in the management comments. I certify that Recommendation 3 has been completed as requested."


Sally A. Smith
Director, Commercial Pay Services

Recommendation 1: Monitor contracts in Section 4 closely to ensure timely processing and prioritize the contracts to ensure that funds do not cancel.

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Estimated Completion Date: This recommendation is considered closed.

Team Members

The Defense Financial Auditing Service Directorate, Office of the Deputy Inspector General for Auditing of the Department of Defense prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

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